

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua : Case No. 13-588-WW-SIC
Ohio, Inc. for Authority to Assess and :
Collect a System Improvement Charge in :
the Lake Erie Division. :

**COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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**On behalf of the Staff of the
Public Utilities Commission of Ohio**

May 17, 2013

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BACKGROUND

Effective January 6, 2004, the General Assembly enacted Section 4909.172, Revised Code, which created an infrastructure improvement surcharge mechanism for water and wastewater companies to recover specific costs associated with certain distribution plant improvements. In Case No. 03-2266-WS-SIC, the Public Utilities Commission of Ohio (Commission) developed a set of guidelines and schedules that govern the filing of applications to recover these types of costs.

On March 5, 2013, Aqua Ohio, Inc. (Applicant or Company) filed an application to collect a system improvement surcharge of 3% in its Lake Erie Division pursuant to the Commission's guidelines. The Applicant proposes to add a surcharge of \$1.00 per month for the average residential customer using 5,300 gallons of water per month. This

monthly surcharge is to recover costs related to replacement of certain infrastructure improvements made since the Applicant's last system improvement surcharge application, Case No. 11-5849-WW-SIC and Case No. 10-2771-WW-SIC and its last rate case, Case No. 09-1044-WW-AIR.

On March 13, 2013, the presiding Attorney Examiner issued an Entry establishing a deadline for filing of comments of May 17, 2013. These comments are timely submitted by the Staff.

OPERATING INCOME AND RATE BASE

Scope of Investigation

The scope of the Staff's investigation was to determine if the Applicant's filed exhibits, schedules and other documents comply with Commission guidelines, are reasonable for ratemaking purposes, and if the financial records supporting this data are reasonable and reliable. The Staff interviewed the Applicant's key management personnel and reviewed internal and published financial reports. The original cost of property was tested for reasonableness through an examination of the Applicant's continuing property records. In addition, the existence and the used and useful nature of the assets were verified through physical inspections. Other independent analyses were performed by the Staff as considered necessary under the circumstances.

The limited purpose of the Staff's investigation was to develop financial data for ratemaking purposes. While the Staff expresses no opinion on the financial statements of

the Applicant as a whole, the principal purpose of the Staff's investigation was to develop financial data for ratemaking purposes in this case.

STAFF FINDINGS

Infrastructure Plant and Depreciation

The Applicant requests recovery of costs associated with distribution system infrastructure improvements for the period November 1, 2011 to January 31, 2013, in the amount of \$2,580,809, from the accounts shown below:

Account 343 (Mains)	\$2,043,163
Account 345 (Service Replacements)	357,099
Account 348 (Hydrants)	<u>180,547</u>
Total	\$2,580,809

The Staff selected several projects from each of the three accounts for evaluation. The Staff examined thirteen projects totaling \$1,432,532, or approximately 64% of all plant additions requested in this case. Supporting documentation reviewed included task orders, continuing property records (CPR's), and selected invoices associated with accounts 343, 345, and 348.

The Staff determined that all projects requested in the March 5, 2013 application consisted of mains and valves, service lines, and hydrants installed in replacement of existing facilities in accordance with R.C. 4909.172. Since the projects are replacing aging distribution-related facilities, Staff believes that they should aid the service reliability of Aqua Ohio's systems. Staff conducted a physical verification of the projects, where possible, and found that all projects are complete and rendering public utility ser-

vice to its customers. Staff further determined that the infrastructure plant costs are not already reflected in the affected schedules filed by the company under R.C. 4905.31.

The Staff reviewed and analyzed the Applicant's Schedule 4 (Provision for Depreciation), Schedule 5 (Annualized Depreciation Associated with Additions), Schedule 5a (Annualized Addition in Property Taxes for Additions), Schedule 6 (Annualized Reduction in Depreciation for Retirements) and Schedule 6a (Annualized Reduction in Property Taxes for Retirements). The Staff verified that the Applicant is using the correct depreciation accrual rates prescribed in Case No. 09-1044-WW-AIR and that the calculations are correct. The Staff also verified that the Applicant is using the proper Ohio Department of Taxation taxable valuation percentage rate and the proper tax rate prescribed in its last base rate case, and that the property tax calculations are correct.

The Staff finds the Applicant's infrastructure plant costs and corresponding depreciation are accurate and reasonable for purposes of establishing a System Improvement Surcharge. The proposed surcharge will recover only those costs specifically related to the Applicant's infrastructure improvements and do not provide any additional base revenue to the Company.

RATE OF RETURN

By statute, the date certain in this proceeding can be no later than three years from the date that the Company's existing rates and tariffs went into effect. Therefore, the pre-tax rate of return is based on information contained in the Applicant's rate filing in Case No. 09-1044-WW-AIR and the rate of return on equity authorized in the Commission's

Opinion and Order dated September 1, 2010 approving the stipulated rate filing in that case.

Staff finds that the Applicant's pre-tax rate of return is correct and consistent with the Commission's guidelines adopted in Case No. 03-2266-WS-SIC. The proposed surcharge will provide a fair and reasonable rate of return on the Applicant's valuation of costs associated with distribution system infrastructure improvements for the period of November 1, 2011 to January 31, 2013.

RATES AND TARIFFS

Revenue Distribution

R.C. 4909.172 was amended effective March 27, 2013. The Applicant filed this proceeding on March 5, 2013; therefore the Revised Code in effect at that time is applicable. The applicable R.C. 4909.172 states that the surcharge chargeable to each affected customer class of the company shall not exceed three percent of the rates and charges applicable to the class and in effect on the date the application was filed and, as to the allowed percentage increase, shall be uniform for each such class.

The Applicant filed a tariff with a proposed System Improvement Charge (SIC) of 3.00%. The proposed System Improvement Charge surcharge would apply to all bills issued after the approval of the tariff and would be in addition to the charges provided for in the tariff for all metered and private fire service in the Aqua Ohio Lake Erie Division. For the customers in the Norlick Place and Lake Seneca Subdivisions, the surcharge will be in addition to all flat rate, unmetered charges.

Staff finds that the proposed surcharge does not exceed three percent and is distributed uniformly to all classes.

R.C. 4909.172 also states that the Commission shall not authorize a company to have more than three surcharges in effect at any time. The Applicant has two System Improvement Charge Surcharges in effect in the Lake Erie Division. These SICs became effective after February 10, 2011, and February 24, 2012 in Case Nos. 10-2771-WW-SIC and 11-5849-WW-SIC, respectively. The existing SICs will continue in effect with the new proposed SIC being the third and final additional surcharge of 3.00%.

Staff finds that the existing and proposed surcharges do not exceed the three surcharge maximum and should be approved.

Tariff Filings

Applicant has requested that the surcharge be applied to all rates and charges for unmetered service. Staff recommends that the surcharge only apply to flat rate usage charges and not all rates and charges.

The proposed surcharge with the Staff's recommended change incorporated should be listed in the tariffs as follows:

Section 4-1, Sheet No. 2 and Section 4-4, Sheet No. 2 (former Lake Erie East) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all metered and private fire rates, a third, additional surcharge of 3.00% will apply to all services rendered after XXXXXX xx, 2013.

Section 4-2, Sheet No. 1 (former Norlick Place Water) and Section 4-3, Sheet No. 1 (former Seneca Utilities) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all unmetered rates, a third, additional surcharge of 3.00% will apply to all services rendered after Xxxxxx xx, 2013.

Staff finds the proposed layout for the above mentioned tariff pages to be reasonable and should be approved.

The proposed date on the Subject Index page should be listed as XX/XX/13 and not 2013 to save space and to be consistent. The previous date of 2012 should also be consolidated to February 24, 2012.

Staff finds the proposed tariffs to be reasonable and recommends approval with the above-mentioned changes.

Customer Notice

Applicant amended the proposed customer notices on March 12, 2013. Staff has reviewed the Applicant's amended proposed customer notices and recommends that the customer notices be approved with corrections made for a few minor typographical errors. The former Seneca and Norlick Division letter, 3rd paragraph, 9th line down, should show a date of 2013, not 2012. The Lake Erie Division letter, 3rd paragraph, 6th line down, has verbiage not contained in the other two letters, "...since the last rate case." This verbiage should either be removed from the Lake Erie Division letter or inserted in the other two letters for the sake of uniformity of message.

STAFF RECOMMENDATION

After a thorough review of this application, Staff believes that, subject to the above recommendations, Aqua Ohio's March 5, 2013 filing is reasonable and recommends Commission approval of the proposed surcharge.

Respectfully submitted,

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Ohio Attorney General

William L. Wright
Section Chief

/s/ Thomas G. Lindgren

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**On behalf of the Staff of the
Public Utilities Commission of Ohio**

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 17th day of May, 2013.

/s/ Thomas G. Lindgren

Thomas G. Lindgren
Assistant Attorney General

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Summary: Comments submitted by Assistant Attorney General Thomas Lindgren on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio